

HJR

34

## Sponsor Statement

### HJR 34

**“ An Act proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.”**

The largest contributor to our state's unrestricted revenue is also the most volatile component of the state's revenue. 85 percent of unrestricted revenues through FY '08 and 75 percent of unrestricted revenues through FY '11 will come from oil. Since 1988 Alaska North Slope crude oil production has declined and is expected to continue to decline by 0.75 percent per year from FY '06 to FY '16. HJR 34 provides an appropriation smoothing and limiting mechanism applicable to the wildly fluctuating portion of the budget that is oil revenue.

Recognizing the difficulty in building and balancing our budget in a responsible manner when the price of oil fluctuates as it does on a year-to-year basis, HJR 34 forces the legislature to incorporate its oil revenues into the budget in any given fiscal year on a five-year rolling average, (4 years back and 1 year forward). This averaging would act as a “dampener” to prevent spending sprees when oil prices are high and spending crashes when oil prices are low.

HJR 34 also establishes a “Balanced Budget Account” in the State Treasury. Any oil and other mineral revenue received by the state in excess of the 5-year average amount referenced above will be deposited into the Balanced Budget Account. This account would not be subject to the Constitutional Budget Reserve sweep, but would be limited to a maximum amount that is equal to the oil and other mineral revenue appropriations for the current fiscal year, plus the immediate preceding fiscal year. Any excess amount would be transferred to the Constitutional Budget Reserve.

This resolution would also provide for transfer of funds from the Balanced Budget Account into appropriations during years when actual revenue from oil and other minerals falls below the 5-year average. In lean years, the legislature may with a majority vote transfer funds from the Balanced Budget Account necessary to fill the “gap” between the revenue available and the 5-year average. If the legislature requires appropriations above what the 5-year average permits, it may choose to live within its means or seek funds from other sources of revenue.

HJR 34 will end the constant search by the legislature for rat holes in which to stash excess revenues so they can get their hands on those funds to balance the budget in the following years without having to buy the ¾ vote to get funds from the Constitutional Budget Reserve to balance the budget. The resolution also avoids all the “sacred cows” by having no effect on the permanent fund corpus or the earnings of the Permanent Fund, the Amerada Hess Account or the Permanent Fund Dividend.

Feb 14, 9:09 PM EST

Alaska's boom spending could mean a hard crash later

By MATT VOLZ

Associated Press Writer

JUNEAU, Alaska (AP) -- If America is addicted to oil, as President Bush put it in his State of the Union Address, then Alaska may be the nation's top junkie.

Since crude prices started their dizzying climb two years ago, state officials have celebrated the boom with spending increases of about 15 percent a year. As next year's state budget talks get underway, legislators will have to deal with an anticipated \$1.2 billion surplus and a plan by Gov. Frank Murkowski to spend \$500 million above what the Legislature approved for this year.

The Alaska Legislature's financial advisers warn that volatile crude prices won't be able to keep pace with the state's ballooning budget. If spending grows over the next eight years as it has since 2003, oil prices will need to rise to \$93 dollars per barrel for the state to break even, they say.

And a dip in oil prices could put the state in the red a lot sooner. Senate Finance Co-Chairman Gary Wilken, R-Fairbanks, told his committee colleagues on Tuesday the pace of state spending "ought to scare the hell out of you."

"We're dancing on a pin and we're praying to the oil gods that we're going to be living up here for years to come," Wilken said of high crude prices.

North Slope crude closed at \$57.27 per barrel Tuesday.

Cheryl Frasca, Murkowski's budget director, said state budgets over the past 20 years have been based on spending levels that the price of oil could not support. Basic services such as education and transportation must be delivered regardless of such a volatile revenue source.

"Over the past 20 years we've been dancing on the head of a pin and that's the nature of the budgeting because of our revenue source," Frasca said.

Money pumps into Alaska's treasury from the royalties and taxes on North Slope oil fields, accounting for 85 cents of every dollar the state takes in. The economy can

rise or fall at the turn of a price of a barrel, and Alaska has seen both ends of boom and bust cycles over the past eight years - from \$9.39 per barrel oil in December 1998 to \$67.06 at the end of last August.

Alaska's 664,000 residents have been the beneficiaries of the state's oil wealth. They pay no state income tax, no state sales tax and even receive an annual cut of the wealth as a dividend check from the Alaska Permanent Fund.

Last year more than 603,000 men, women and children got a check for \$845.76. Since the program began in 1982, residents have received \$13.6 billion in dividends.

This year, the Legislature could set a new spending record. Between his budget proposal for next year and supplemental spending requests for this year, Murkowski is asking the Legislature to approve \$4.3 billion in spending.

State agencies would see major operating increases under the plan, including a 54 percent jump in the Department of Labor and Workforce Development's budget above this year. The Department of Commerce, Community and Economic Development's budget would rise nearly 38 percent. The Department of Fish and Game's operating budget would rise 30 percent. Five other agencies would see increases of more than 20 percent.

Frasca said almost 46 percent of the budget is made up of the formula-driven costs of Medicaid, public education and the University of Alaska.

Murkowski's budget proposal for next year has a break-even point of \$55 per barrel average oil price.

That would fall in line with a forecast \$57.30 per barrel North Slope crude price average for this year, but the state Department of Revenue predicts prices will drop to \$49.20 next year and \$40.95 the year after that.

That means if spending increases again next year and the price of oil falls, the state will have a deficit by fiscal year 2008. And that caused Wilken to ask whether the state's spending habits could be sustained over the long haul.

"The answer is yes, all we need is oil to grow about \$5 per year," said Legislative Finance Director David Teal.

Wilken's estimate doesn't take into account the state's dropping production, which shrinks the tax money coming into the state. North Slope production is forecast to fall from an average 917,000 barrels a day last year to 865,000 barrels a day this year, according to the Department of Revenue.

That drop is expected to continue through 2016, with a few spikes as new fields are developed.

There are several things that could keep Alaska's economy from going over the cliff. First is a proposed restructuring of the state's oil production tax that could mean \$1.1 billion to \$2.5 billion in additional revenue per year, depending on the rate that is set.

Murkowski plans to introduce a bill on Thursday that would tax the net profits of oil companies doing business in Alaska. House and Senate Democrats have already filed their own bill.

The state also has the \$2.2 billion Constitutional Budget Reserve, which has been used in 10 of the past 14 years to plug deficits.

Then there is the \$33 billion cushion in the Alaska Permanent Fund, the state's oil wealth saving account created as a rainy-day fund, but which causes a political uproar at the mention of using that money for state spending.

Further in the future, if the Arctic National Wildlife Refuge is opened to oil and gas drilling, that could boost Alaska's declining oil production within 10 years. But opening ANWR has been defeated year after year in Washington amid concerns of damaging the environment and the North Slope's wildlife.

Another possible future revenue boost is a North Slope natural gas pipeline. Negotiations between the state and three major oil producers have been going on for well over a year on fiscal terms to build the pipeline, which could cost between \$20 billion and \$25 billion to build.

The pipeline would tap into 35 trillion cubic feet of natural gas reserves on the North Slope, with possibly hundreds of trillions of undiscovered reserves waiting to be found.

But simply adding money to the revenue stream won't fix Alaska's spending problem, said Sen. Con Bunde, R-Anchorage. The appetite to spend will just grow with the treasury, he said.

"Numbers don't matter so much as how out of balance we are. You can add a billion or two to that and we could still be out of balance," he said.

Wilken said the Legislature's immediate task will be to make hard decisions about the spending requests in this year's budget. That means sorting through the new programs and expansions of existing programs and making cuts where they are needed.

"I would hope that the mantra floating around this building ... is that we're going to end up saving something," Wilken said.

Frasca said the concern should be about Alaska's future and not about a happy ending on a spread sheet.

"I welcome their concerns, but for the last three years, the Legislature has added millions to the governor's proposed operating budgets," she said.

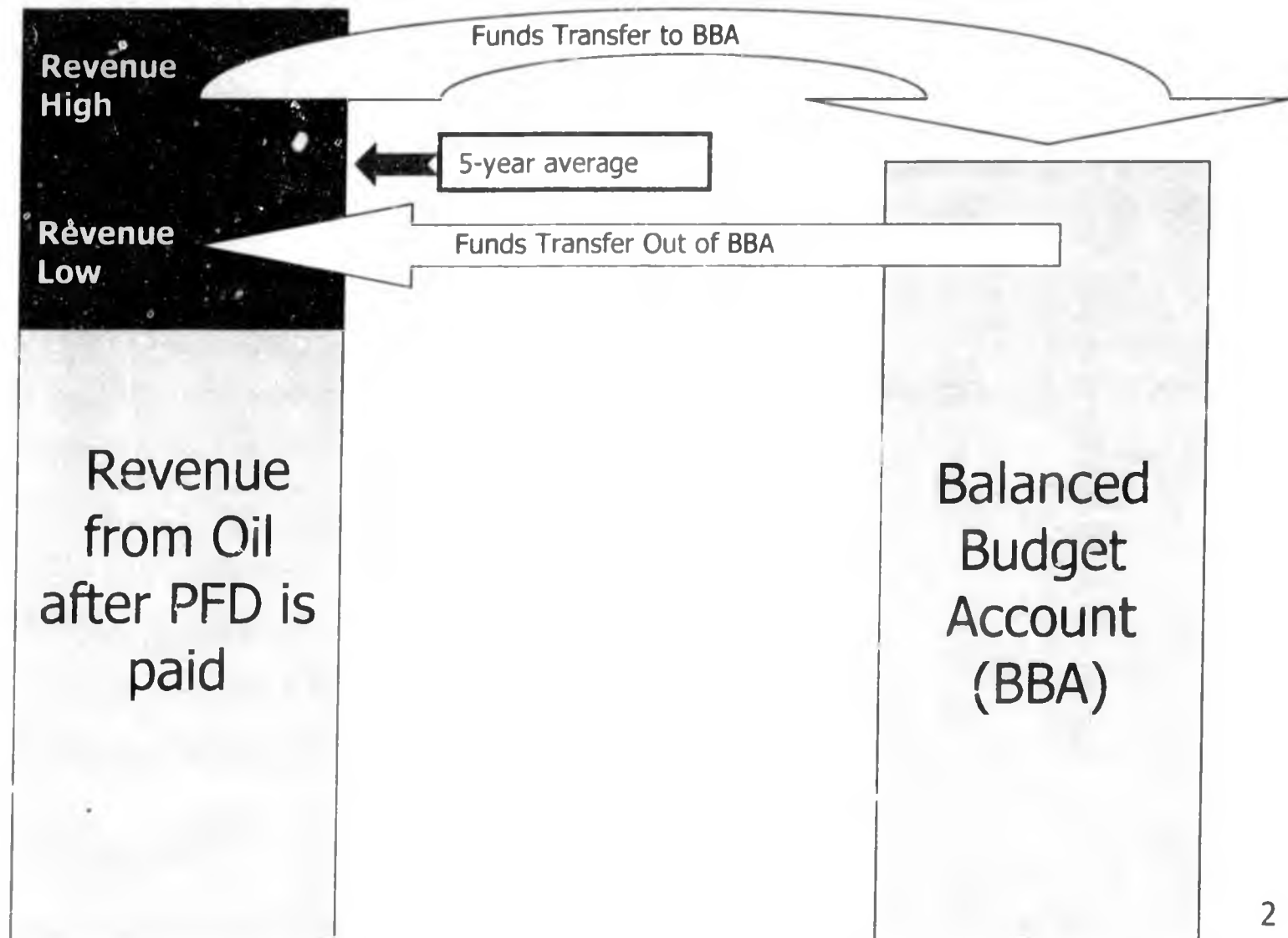
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# HJR 34

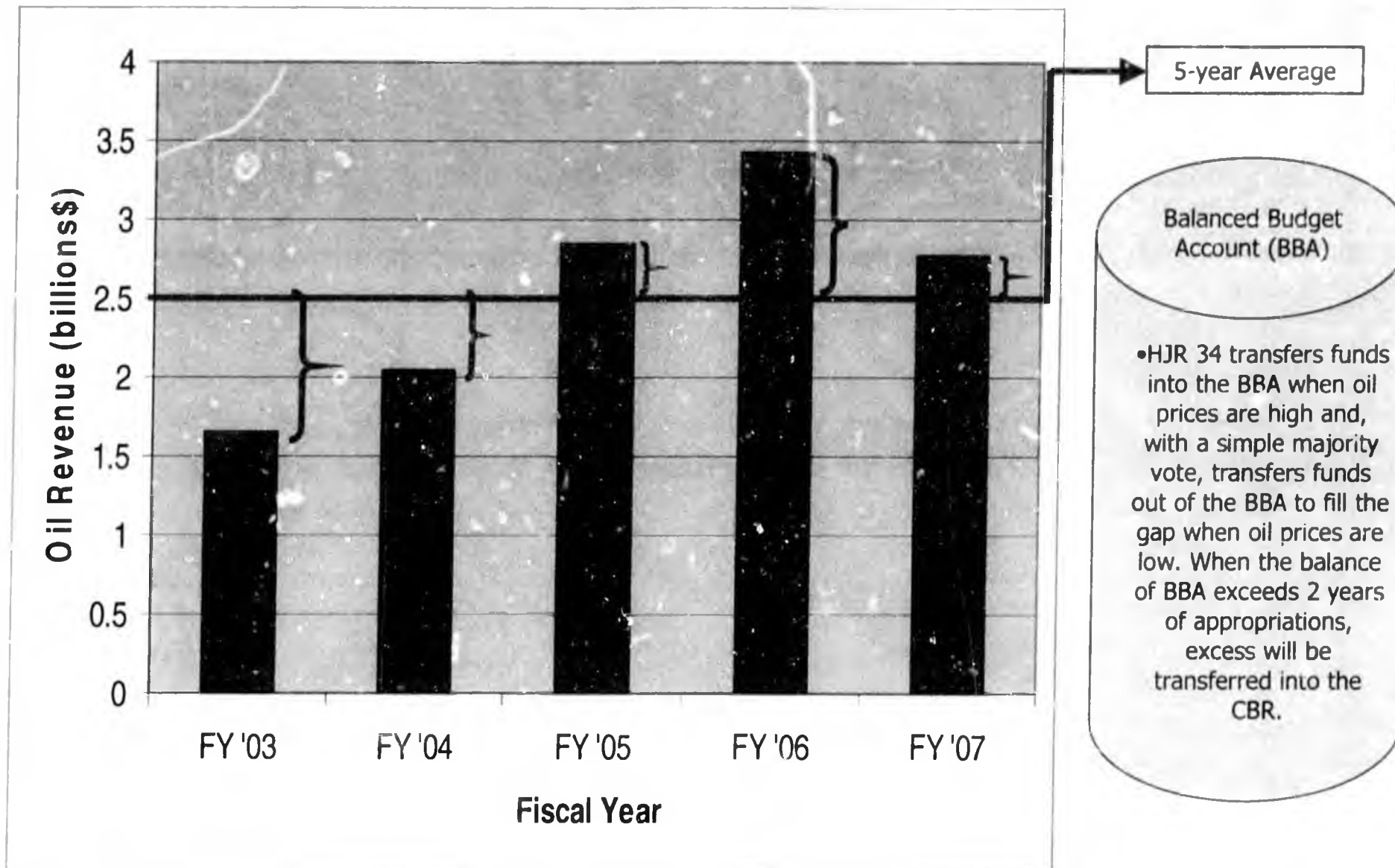
The Balanced Budget Resolution

Rep. Mike Kelly

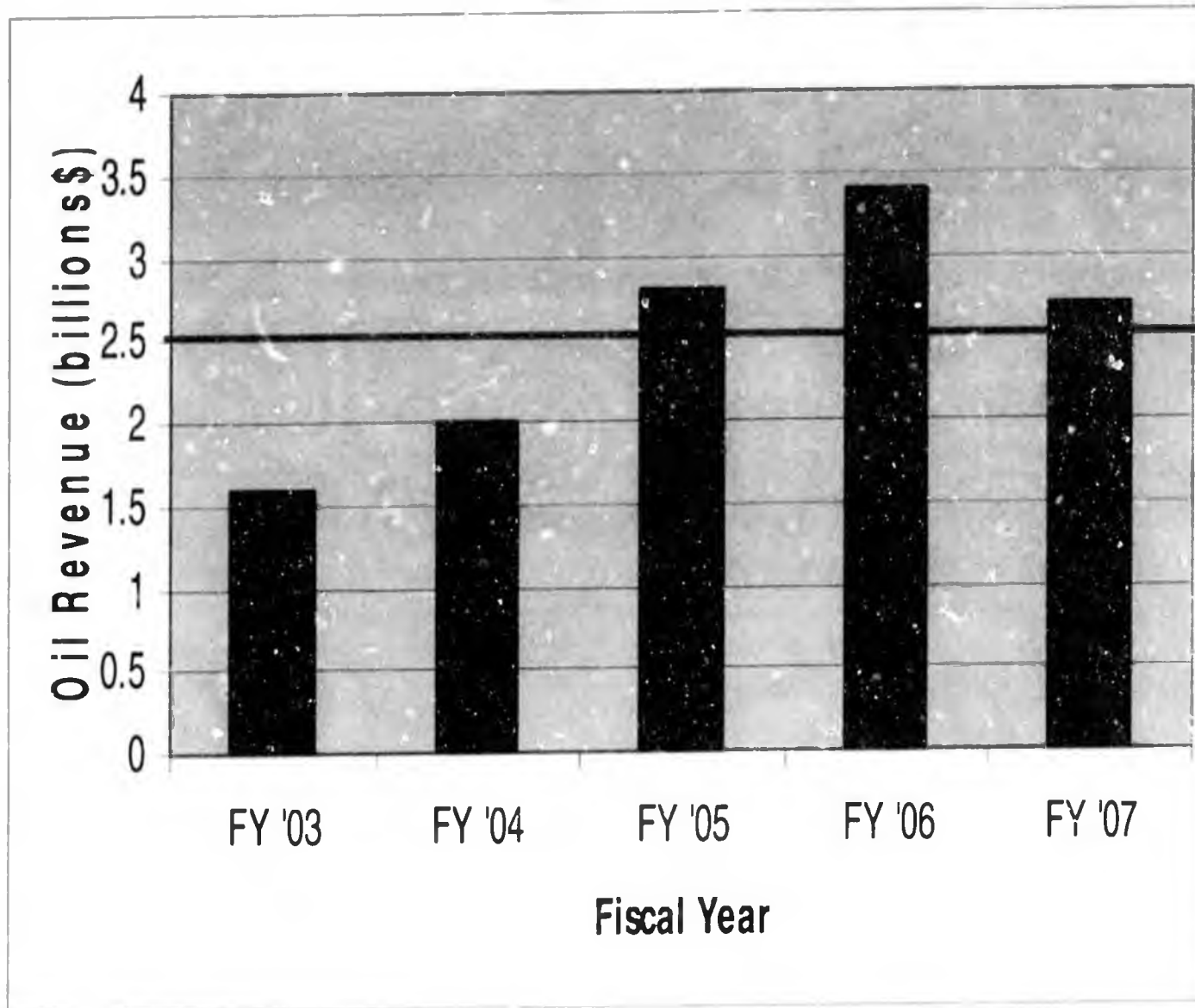
# Basic Concept of Balanced Budget Resolution



# HJR 34



# 5-year Average



## 5-year Average Calculation:

Take the Petroleum Revenue for the past 4 years, plus the Dept. of Revenue's current fiscal year projection and divide by 5.

### Example:

\$ (Billions)

'03 \$ 1.6

'04 \$ 2.0

'05 \$ 2.8

'06 \$ 3.4

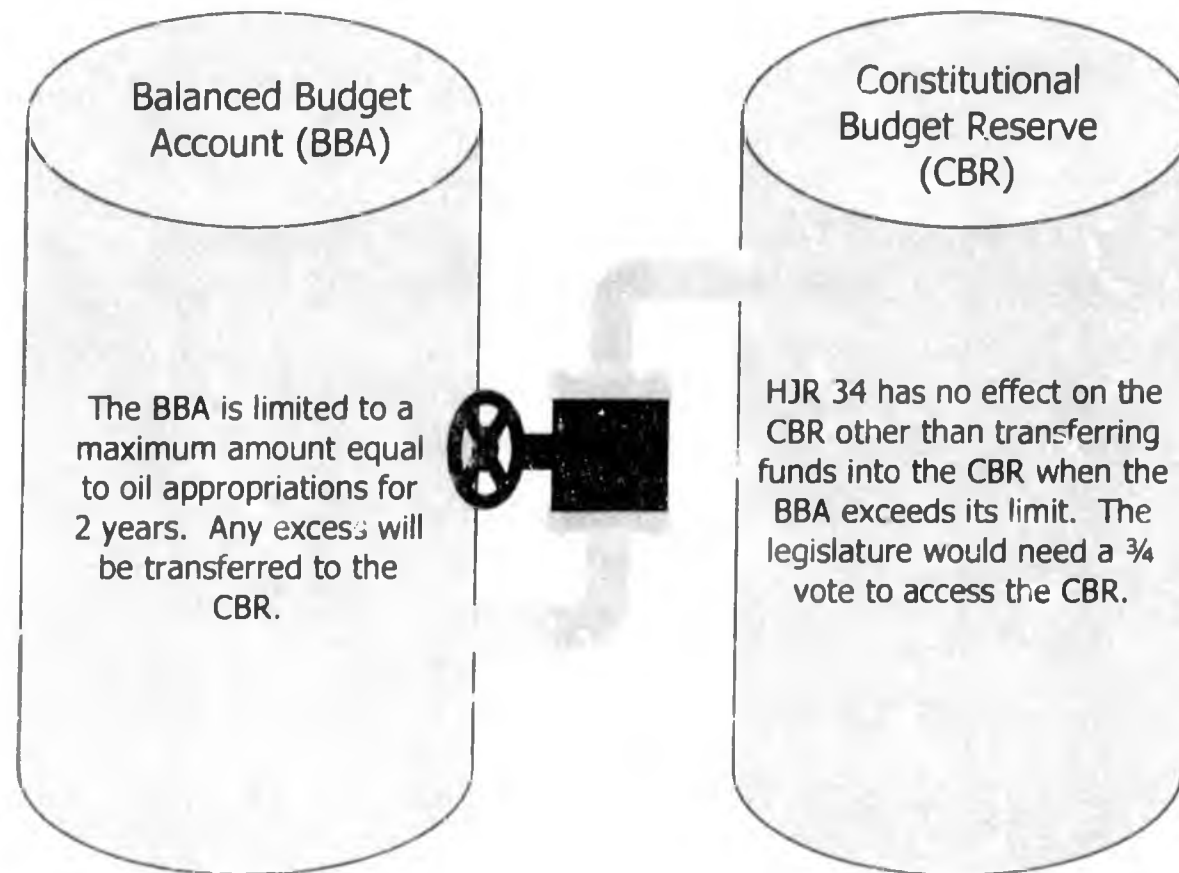
'07 \$ 2.7

Total \$12.5

Divided by 5 =

\$ 2.5

# The BBA and CBR



# The Sacred Cows

HJR 34 Does not touch:

- ◆ Permanent Fund Dividend
- ◆ Permanent Fund Corpus
- ◆ Permanent Fund Earnings
- ◆ Amerada Hess

# CBR Sweep

- ◆ The Balanced Budget Account is NOT subject to the Constitutional Budget Reserve sweep.

# Fiscal Responsibility

- ◆ Encourages a better budgeting system than “when you have it, spend it – when you don’t, cut.”
- ◆ Provides a simple but effective mechanism to help save budget surpluses and avoid deficits while encouraging government to live within its means.

# Petroleum Profits Tax & HJR34

- ◆ Timing – Appropriate
- ◆ The PPT addresses income - HJR34 addresses appropriations

# Why a Constitutional Amendment?

- ◆ The legislature can easily overpower, ignore or change statutory appropriation constraints.
- ◆ Let the people speak concerning this simple fiscal framework. It may be the only fiscal plan they will endorse at this time.